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HOUSE OF REPRESENTATIVES

REPT. 99-480
Part 1

PROVIDING FOR AN EQUITABLE METHOD OF ESTABLISHING 1986 AND 1987 FARM PROGRAM PAYMENT YIELDS FOR THE PURPOSES OF THE WHEAT, FEED GRAIN, UPLAND COTTON, AND RICE PROGRAMS, AND FOR OTHER PURPOSES

MARCH 3, 1986.—Ordered to be printed

Mr. DE LA GARZA, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H.R. 4105]

The Committee on Agriculture, to whom was referred the bill (H.R. 4105) providing for an equitable method of establishing 1986 and 1987 farm program payment yields for the purposes of the wheat, feed grain, upland cotton, and rice programs, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

PROGRAM YIELDS

SECTION 1. Effective beginning with the 1986 crops, paragraph (2) of section 506(b) of the Agricultural Act of 1949 is amended by—

(1) inserting "(A)" after the paragraph designation; and

(2) adding at the end thereof the following:

"(B) Notwithstanding the foregoing provisions of this paragraph or paragraph (1), the farm program payment yield for the 1986 or 1987 crop year may not be established at a level less than the farm program payment yield established for the 1985 crop year.".

PAYMENT LIMITATION DETERMINATIONS

SEC. 2. Notwithstanding any other provision of law, if a farm operating plan for payment limitation review has been disapproved, the Secretary of Agriculture, at the request of the submitter of the plan, shall make determinations whether certain multiple individuals or legal entities covered by the plan or any revision of the plan are to be treated as cne person or as separate persons for purposes of applying the payment limitation for the 1986 crops under the provisions of section 1001 of the Food Security Act of 1985 on the basis of the status of such individuals or entities on April 1, 1986.

Amend the title so as to read

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H163-3

A bill to provide for an equitable method of establishing 1986 and 1987 farm program payment yields for the purposes of the wheat, feed grain, upland cotton, and rice programs, and for other purposes.

Brief Explanation

H.R. 4105 will amend the provisions of the Agricultural Act of 1949 (as added by the Food Security Act of 1985) governing the establishment of farm program payment yields for producers of the 1986 and 1987 crops of wheat, feed grains, upland cotton, and rice.

Under the 1985 Act, as a general rule, the program yield that will be assigned to producers for each of the 1986 and 1987 crops will be the average of the program yields assigned to farmers for each of the 1981 through 1985 crops, excluding the years with the highest and lowest program yields. This system will penalize farmers who have been able to have their program yield increased over that five/year period through gains in productivity.

H.R. 4105 will address this problem by adding a new provision to prohibit the Secretary of Agriculture from establishing the program yield for the 1986 or 1987 crop under this system at a level lower than the 1985 program yield.

The bill would also extend the period for certain producers to resubmit applications for changes in farm status.

Purpose and Need

The Food Security Act of 1985 provides generally that the farm program payment yields for each of the 1986 and 1987 crops of wheat, feed grains, cotton, and rice will be the average of the farm program payment yields for the farm for the 1981 through 1985 crop years, excluding the high and low years. Prior to the 1985 Act, farm program yields were based on a five-year average of proven or established yields, and growers were able to have their efficiency of production reflected in the annual determination of program yields.

Under this previous formula, a grower's program yields could be adjusted annually to reflect the opportunity costs associated with establishing a more efficient farm practice. Through such means, growers were able to improve their cost efficiency, thereby increasing their ability to be more cost-competitive with producers in other countries.

Under the new yields formula established by the 1985 Act, program payment yields for most producers will be decreased. On the average, wheat farmers across the Nation will have their program yields reduced by 10 percent, and some growers will experience as much as 30 percent reduction. This will directly lower the level of deficiency payments made to individual producers, as well as the amount of payments-in-kind that they are eligible to receive. It is estimated that the changes announced in base and yield formulas, levels of set-aside, and paid diversion payment rates combined with the 4.3 percent Gramm-Rudman-Hollings reduction will mean that most grain producers in the United States will experience more than a 10 percent drop in their 1986 and 1987 gross income from the 1985 level. Unquestionably, such a drop would imperil many grain producers who are already experiencing severe economic

hardship. Further, the ability of grain producers to adjust to the more market-oriented farm policy included in the 1985 Act would be jeopardized.

H.R. 4105 is designed to cushion the adjustment to a more market-oriented policy by freezing the program payment levels at no less than the 1985 program payment for the 1986 and 1987 crop years. By freezing at no less than the 1985 level, a producer's gains in efficiency over the last 10 years will not be disregarded. Moreover, producers will get credit for their use of improved seed varieties and farming practices. The Committee believes that producer production efficiency must be encouraged and not discouraged if U.S. producers are to become more cost competitive with producers in a world market.

The bill extends to April 1, 1986, the time period in which a farmer or producer whose farm operating plan for payment review has been disapproved to submit a new or amended plan for the 1986 crop. The Food Security Act of 1985 was not signed into law until December 23, 1985, and the farm program announcements have been published only very recently. As a result, farmers have been under extreme pressure to formulate their farm plans when there is little information or guidelines forthcoming from the Department of Agriculture with regard to farm programs.

The effect of payment limitations on producer participation in farm programs for the 1986 crop year will be substantial. Meanwhile, the farm credit crisis is resulting in substantial consolidation of farming operations throughout the country, and the plans of owners and operators are being affected by such matters as availability of credit, options for nonparticipation in farm programs, and so on.

The Department of Agriculture has the administrative authority to address the problem addressed by the bill and has failed to offer relief to producers. The legislative correction of the problem in the bill will be only for the 1986 crop year and corrects the problem only to the extent absolutely necessary for a farm sector that is currently experiencing considerable economic stress and confusion about the details of the farm programs.

Section-by-Section Analysis

SECTION 1

Section 1 will amend the provisions of section 506(b) of the Agricultural Act of 1949 (as added by the Food Security Act of 1985) governing the establishment of farm program payment yields for producers of the 1986 and 1987 crops of wheat, feed grains, upland cotton, and rice.

Under section 506(b), as a general rule, the program yield that will be assigned to producers for each of the 1986 and 1987 crops will be the average of the program yields assigned to farmers for each of the 1981 through 1985 crops, excluding the years with the highest and lowest program yields. This system will penalize farmers who have been able to have their program yield increased over that five-year period through gains in productivity.

Section 1 will address this problem by adding a new provision to section 506(b) to prohibit the Secretary of Agriculture from establishing a producer's program yield for the 1986 or 1987 crop under this system at a level lower than the 1985 program yield.

SECTION 2

Section 2 states that, notwithstanding any other provision of law, if a farm operating plan for payment limitation review has been disapproved, the Secretary of Agriculture, at the request of the subcommittee of the plan, is to make determinations whether certain multiple individuals or legal entities covered by the plan or any revision of the plan are to be treated as one person or as separate persons for purposes of applying the payment limitation for the 1986 crops under the provisions of section 1001 of the Food Security Act of 1985 on the basis of the status of such individuals or entities on April 1, 1986.

Currently, Department of Agriculture regulations (7 C.F.R. 795.5) provide that the status of individuals or entities on March 1 of any year will be the basis on which the Secretary is to make such determinations with respect to crops produced in such year. Section 2 will override those regulations for the 1986 crops and require the Secretary, at the producer's request, to look at the status of individuals or entities as of April 1, 1986, in making 1986 determinations. This will give farm operators who are in the process of revising their farm operations to participate in the programs for the 1986 crops under the Food Security Act of 1985 another month to complete such activities.

COMMITTEE CONSIDERATION

HEARINGS

On Wednesday, February 19, 1986, the Subcommittee on Wheat, Soybeans, and Feed Grains of the Committee on Agriculture held a public hearing on H.R. 4105.

H.R. 4105, as introduced, would amend the provisions of the Agricultural Act of 1949 governing the establishment of farm program payment yields for producers of the 1986 and 1987 crops of wheat, feed grains, upland cotton, and rice.

Those testifying in support of H.R. 4105 were: The Honorable Richard Stallings, Member of Congress from Idaho; the Honorable Byron Dorgan, Member of Congress from North Dakota; Mr. Bud Leuthold, President, National Association of Wheat Growers; Mr. Donovan Loeslie, President, Minnesota Wheat Growers Association; and Mr. Dain Friend, President, National Corn Growers Association. Also testifying on H.R. 4105 was Mr. William C. Bailey, Deputy Administrator for Program Planning and Development, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture.

Generally those supporting H.R. 4105 expressed the concern that the new payment yield formula authorized in the Food Security Act of 1985 does not adequately take into consideration the gains in efficiency accomplished during the last ten years through the use of improved seed varieties and improved farming practices, and

in effect, appears to penalize most farmers for trying to be efficient. The concern was expressed that the new yield formula will reduce farm income for most producers in 1986 and 1987 by more than 10 percent from the 1985 levels. It was claimed that such a reduction in farm income would have a most disastrous economic impact on grain producers over the next few years as they moved to a more market-oriented farm system in order to compete in the world market.

The U.S. Department of Agriculture announced its opposition to H.R. 4105 at the hearing, reasoning that the change in the yield formula in the Food Security Act was an integral part of the cost-saving provisions agreed to in order to make the Conference agreement on the Food Security Act of 1985 acceptable to the Administration. The Deputy Administrator also testified that H.R. 4105 would increase outlays for fiscal years 1986–1988 by approximately $850 million. Mr. Bailey further stated that the current yields formula is desirable because by freezing program yields, increases in productivity are disassociated from deficiency payments, which makes market returns the incentive for improving productivity.

Subcommittee Markup

The Subcommittee on Wheat, Soybeans, and Feed Grains met on Wednesday, February 19, 1986, to consider H.R. 4105.

Subcommittee Chairman Tom Foley called the meeting to order and asked for the consideration of H.R. 4105. Mr. Foley gave the Members a general explanation of the bill.

After Members of the Subcommittee discussed the bill, Mr. Daschle moved that H.R. 4105 be reported favorably to the Agriculture Committee. The Daschle motion was agreed to by voice vote, and was later confirmed by a show of hands vote, 16 yeas and no nays.

The Committee on Agriculture met on Wednesday, February 26, 1986, to consider H.R. 4105, as reported by the Subcommittee on Wheat, Soybean, and Feed Grains. H.R. 4105 was introduced to provide for an equitable method of establishing 1986 and 1987 farm program payment yields for the purposes of wheat, feed grain, upland cotton, and rice programs. Chairman de la Garza called the meeting to order and called up the bill for consideration. Mr. Huckaby asked unanimous consent that the Subcommittee on Cotton, Rice, and Sugar be discharged from further consideration of H.R. 4105. Without objection, the Committee agreed to Mr. Huckaby's request. Mr. Foley, Chairman of the Wheat, Soybeans, and Feed Grains Subcommittee, briefly explained H.R. 4105 for the Members.

Mr. Marlenee said that it was important that the bill specify that the yield level will be *not less* than the 1985 level because previous natural disasters may otherwise result in an unfair determination. Members discussed the budgetary implications of the bill. The Department representative said that the bill would result in an additional $480 million cost. Howard Conley, the Committee's staff economist, said that a preliminary Congressional Budget Office staff analysis agrees with the Department of Agriculture's cost estimate.

Mr. Stenholm expressed his desire to freeze yields and not fully compensate producers that are fortunate and have high yields. Mr. Stangeland said he supports the bill.

Mr. Franklin offered an amendment to provide that farmers who have applied to the Agriculture Department for rulings on whether certain farms are to be classed in 1986 as operated by single persons or as separate operations, and whose applications for a change in farm status were denied, can reapply up to April 1. The right to reapply would also be granted to producers who have applications pending as of March 1, but find their initial application denied.

Mr. Franklin explained that the amendment would merely extend the time period in which a farmer may change a farm plan. During the past few months, farmers have been under extreme pressure to formulate their farm plans, yet clear guidelines were not available. The lateness of the 1985 farm bill and the delayed announcement of the various program details contributed to an already confusing environment. Adding to the dilemma was the reluctance of financial institutions to grant loans because farm plans were being developed without complete information. Therefore, many farmers have been unable to obtain a financial commitment for this year's crop. Moreover, while the Department of Agriculture has the authority to extend the period in which farmers may submit farm plans, it has not granted extensions and America's farmers have not had adequate time to complete farm plans. This extension contained in the amendment is merely for one month; but it will give producers time to complete farm plans, become eligible for consideration for a change in status, and enable the financial institutions to adequately consider the farmer as a prospective borrower.

Mr. Foley asked for unanimous consent for the staff to redraft the amendment to clarify the intent, as expressed by Mr. Franklin. Without objection, the Committee agreed to the Foley proposal. Without objection, the Committee also agreed to amend the title of H.R. 4105 to clarify that the bill's purposes would include other purposes than the establishment of farm program payment yields. The Committee agreed to the Franklin amendment by voice vote.

The Committee, by voice vote, agreed to report H.R. 4105, as amended, to the House with a recommendation that the bill do pass.

Administration Position

At the time of the filing of this report, the Committee had not received a report from the U.S. Department of Agriculture concerning H.R. 4105, as amended. The views of the Administration are reflected in the Committee Consideration section of this report.

Budget Act Compliance (Section 308 and Section 403)

The provisions of clause 2(l)(3)(B) of Rule XI of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 (relating to estimates of new budget authority or new or increased tax expenditures) are not considered applicable. The estimate and comparison required to be prepared by the Director of the Congressional Budget Office under clause 2(l)(3)(C)

of Rule XI of the Rules of the House of Representatives and section 403 of the Congressional Budget Act of 1974 were not received by the Committee prior to the filing of this report. The Committee was advised that it is anticipated that such an estimate and comparison will be available prior to consideration of the bill on the Floor of the House.

The Committee has prepared an estimate of the budget impact of H.R. 4104, as follows:

H.R. 4105 would limit the effects of changes in program yields based on the method of calculation specified under current law. This bill would prevent reductions in program yields for the 1986 and 1987 crops from the 1985 crop program yield. Increased costs would result from higher deficiency and diversion payments. It is estimated that outlays would increase by $855 million over a six-year period.

The bill also permits producers who have filed to reconstitute farms and whose applications are denied to reapply by April 1 so that approval of financing for spring planting, which may be contingent upon reconstitution, will not be jeopardized. The Committee cannot determine the budget impact at this time.

The table below shows our estimate of the effects of the yields provision of section 1 of the bill on Commodity Credit Corporation (CCC) outlays during fiscal years 1986 through 1991.

ESTIMATED EFFECTS ON COMMODITY CREDIT CORPORATION OUTLAYS

Alter program yields

[By fiscal years, in millions of dollars]

1986	165
1987	320
1988	300
1989	70
1990	0
1991	0
1986–91	855

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the Committee estimates that enactment of H.R. 4105, as amended, will have no inflationary impact on the national economy.

OVERSIGHT STATEMENT

No summary of oversight findings and recommendations made by the Committee on Government Operations under clause 2(b)(2) of Rule X of the Rules of the House of Representatives was available to the Committee with reference to the subject matter specifically addressed by H.R. 4105, as amended.

No specific oversight activities other than the hearings detailed in this report were conducted by the Committee within the definition of clause 2(b)(1) of Rule X of the Rules of the House of Representatives.

CHANGES IN EXISTING LAW

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

THE AGRICULTURAL ACT OF 1949

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TITLE V—ACREAGE BASE AND PROGRAM YIELD SYSTEM FOR THE WHEAT, FEED GRAIN, UPLAND COTTON, AND RICE PROGRAMS

* * * * * * *

SEC. 506. (a) The Secretary shall provide for the establishment of a farm program payment yield for each farm for each program crop for each crop year.

(b)(1) Except as provided in paragraph (2), the farm program payment yield for each of the 1986 and 1987 crop years shall be the average of the farm program payment yields for the farm for the 1981 through 1985 crop years, excluding the year in which such yield was the highest and the year in which such yield was the lowest.

(2)*(A)* If no crop of the commodity was produced on the farm or no farm program payment yield was established for the farm for any of the 1981 through 1985 crop years, the farm program payment yield shall be established on the basis of the average farm program payment yield for such crop years for similar farms in the area.

(B) Notwithstanding the foregoing provisions of this paragraph or paragraph (1), the farm program payment yield for the 1986 or 1987 crop year may not be established at a level less than the farm program payment yield established for the 1985 crop year.

(3) If the Secretary determines such action is necessary, the Secretary may establish national, State, or county program payment yields on the basis of—

(A) historical yields, as adjusted by the Secretary to correct for abnormal factors affecting such yields in the historical period; or

(B) the Secretary's estimate of actual yields for the crop year involved if historical yield data is not available.

(4) If national, State, or county program payment yields are established, the farm program payment yields shall balance to the national, State, or county program payment yields.

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